

Message Text

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SUBJ: WORLD WHEAT SITUATION

1. RECENT REPORTS FROM TRADE SOURCES IN EUROPE AND LATIN AMERICA INDICATE THAT CANADIAN WHEAT BOARD MAY BE EMBARKING UPON URGENT EFFORTS TO SECURE ADDITIONAL WHEAT EXPORT SALES, PARTLY AS A RESULT OF IMPROVED WHEAT PRODUCTION ESTIMATES AND PERHAPS MORE IMPORTANTLY BECAUSE THEIR RECENT SALE TO CHINA INCLUDED SIGNIFICANTLY SMALLER AMOUNT FOR JANUARY-JULY 1974 SHIPMENT THAN THEY HAD BEEN COUNTING ON. DESPITE RECENT WEAKENING OF WORLD
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AND U.S. DOMESTIC WHEAT PRICE LEVELS, CANADIAN WHEAT

BOARD HAS NOT FOLLOWED WITH PRICE REDUCTIONS. APPARENTLY THEY ARE HOLDING FAST TO THE BELIEF THAT FOREIGN DEMAND WILL CONTINUE STRONG AND THAT U.S. SUPPLIES MAY NOT BE SUFFICIENT TO MEET REMAINING UNFILLED ORDERS. PERHAPS THEY ARE TO SOME EXTENT "LOCKED" INTO THIS POSITION AS A RESULT OF POSTURE THEY HAVE TAKEN IN RECENT MONTHS WITH FOREIGN BUYERS BASED ON AN ASSESSMENT OF EARLY LAST SUMMER THAT THE U.S. SUPPLY WILL PROVE INADEQUATE FOR FOREIGN DEMAND BEFORE THE 1973/74 SEASON ENDS. IN ANY CASE, IN THEIR CURRENT RENEWED SALES EFFORTS, TACTICS APPARENTLY BEING EMPLOYED CAUSED US CONCERN OVER POSSIBLE LOSS OF EXPORT MARKETS FOR U.S. WHEAT IN THE MONTHS AHEAD.

2. IN RECENT CONTACTS WITH FLOUR MILL BUYERS IN EUROPE, CANADIANS HAVE REPORTEDLY URGED THOSE BUYERS TO ENTER LONGER TERM FORWARD COMMITMENTS, PRESUMABLY AT OR NEAR CANADA'S CURRENT PRICES, ON THE BASIS THAT 1) FOREIGN DEMAND FOR U.S. WHEAT IS SO GREAT THAT ANOTHER UPWARD SPIRAL OF PRICES IS LIKELY AND THAT EXPORT LIMITATION MAY UNTIMATELY PREVENT EVEN THOSE U.S. SALES ALREADY CONCLUDED FROM BEING SHIPPED, AND 2) THE BOARD IS OPERATING ON AN ALLOCATION SYSTEM, AND THAT UNLESS BUYERS TAKE THE QUANTITIES AND PRICES OFFERED BY CANADA NOW, THEY WILL RISK BEING UNABLE TO OBTAIN WHAT THEY WISH TO HAVE AT SOME LATER STAGE. THERE HAS EVEN BEEN INDICATION THAT THIS LINE OF ARGUMENT IS BEING APPLIED TO A LONGER-TERM FUTURE PERIOD OF 2 TO 4 YEARS.

3. U.S. ASSESSMENT OF WORLD SITUATION REMAINS DIFFERENT FROM THE CANADIAN VIEW. WE SEE THE RISK OF EXPORT CONTROLS AS LARGELY BEHIND US, AND WE MUST VIEW THE REPORTED NEW CANADIAN APPROACH AS THREAT TO CONTINUED HIGH LEVEL OF U.S. EXPORTS FOR FUTURE PERIODS. THEREFORE REQUEST YOU CONTACT APPROPRIATE HIGH GOVERNMENT OFFICIALS WITH REPRESENTATION ALONG FOLLOWING LINES:

4. U.S. ASSESSMENT OF WORLD WHEAT SITUATION IS THAT ADEQUATE SUPPLIES ARE AVAILABLE IN EXPORTING COUNTRIES TO MEET 1973-74 TRADE NEEDS. U.S. STOCKS JUNE 30, 1974 ARE ESTIMATED AT 250 MILLION BUSHEL, AND STRONG LIMITED OFFICIAL USE

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LIKELIHOOD OF HIGHER 1974 PRODUCTION LEADS TO ESTIMATE OF STOCKS RECOVERING TO OVER 400 MILLION BUSHEL LEVEL BY END OF 1974-75. WE LOOK FOR CANADIAN STOCKS AT THE END OF JULY, 1974 AT COMFORTABLE LEVEL OF ABOUT 300 MILLION BUSHEL; THIS IS HIGHER THAN OUR EARLIER ESTIMATES MAINLY BECAUSE WE FEEL THAT CANADA MAY NOT AT THIS LATE DATE BE ABLE TO MAKE ADDITIONAL SALES TO MAKE UP FOR LESS-THAN-EXPECTED PURCHASES BY PRC. WE NOW EXPECT 1973 USSR GRAIN

CROP TO EXCEED EVEN THEIR OWN AMBITIOUS TARGET LEVEL OF 197.4 MILLION TONS, AND THAT THIS WILL PERMIT THEM TO ENTER 1974-75 WITH PERHAPS 10 MILLION TONS LARGER STOCKS THAN AT BEGINNING 1973-74.

5. IN CONSIDERING PROPOSALS FOR ADVANCE PRICE AND SUPPLY COMMITMENTS THAT SOME EXPORTING COUNTRIES MAY BE MAKING IN THE CURRENT SITUATION, IMPORTING COUNTRIES SHOULD BEAR IN MIND THAT THIS WOULD LEAD TO A "TIE-UP" OF TRADE; AND THIS IN TURN WOULD PLACE A HEAVY BURDEN OF RISK OF FUTURE PRICE DEPRESSION UPON PRODUCERS IN THE U.S. TO WHATEVER EXTENT THE WORLD AS A WHOLE MAY NEED EXPANDED GRAIN OUTPUT IN THE YEARS AHEAD, WE ARE CONFIDENT THAT U.S. AGRICULTURE HAS THE CAPACITY TO CONTRIBUTE GREATLY TO MEETING SUCH NEED, BUT WE ARE ALSO CONFIDENT THAT U.S. PRODUCTION RESPONSE WILL BE LESSENER SUBSTANTIALLY IF IN THE SHORT RUN WE ENCOUNTER A LOSS OF FOREIGN MARKETS. THIS SIMPLY MEANS THAT A RUSH TOWARD PRICE-SUPPLY COMMITMENTS IN THE SHORT RUN COULD CAUSE NEW PROBLEMS OF SUPPLY AT SOME LATER STAGE. KISSINGER

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